

Instrument of financial support for encouraging the economic development of the Turkish Cypriot community

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The Commission presents the Eighth Annual Report 2013 on the implementation of Community assistance under Council regulation (EC) No 389/2006 establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community.

The Commission recalls the key objectives of the Aid Programme which since 2006 has allowed the granting of some EUR 337 millions to Cyprus for operations carried out under the Regulation. For the purposes of programming in 2013, an amount of EUR 31 millions has been committed for actions on the island.

Actions financed in 2013: The year 2013 saw some significant successes:

- the new Nicosia bicomunal wastewater treatment plant at Mia Milia/Haspolat (the largest in Cyprus);
- the work of the Committee on Missing Persons programme accelerated, achieving the highest rate so far of identification of missing persons;
- the work on cultural heritage achieved some high profile project completions;
- the highly valued scholarship programme reached more students in 2013 than in any previous year and grants supporting schools and farmers were signed.

An overall programme evaluation indicated generally ‘good’ quality. The Commission was also successful in achieving a multiannual perspective for the support to the Turkish Cypriot community under the MFF for 2014-20.

However, the political context prevents decisive progress on some areas and 2013 was marked by the escalation of an already existing problem, **the referral by local contractors of contract disputes to the local ‘courts’ and resultant ‘court’ awards against the Commission** including an injunction preventing the call-up of bank guarantees issued by local banks. This was partly defused through changes to local legal texts, but it is yet to be seen if the protection of locally-issued bank guarantees is adequate.

Additionally, this protection does not seem to have retroactive effect and the Commission is still unable to cash some bank guarantees. This problem has delayed grant contract signatures.

Main conclusions: the report details the progress of projects by the Regulation objectives. In general, the report concludes that it is necessary to make further progress towards meeting the main objective of the Regulation, **to facilitate thereunification of Cyprus** by encouraging the economic development. This objective remains difficult to achieve, given the operating context in the northern part of the island.

The report recalls that the settlement of the Cypriot question will be attained through a political process, but the EU assistance programme will be vital in accelerating the economic and social integration.

Despite operating in the challenging environment of the northern part of Cyprus, **solid achievements are now visible, building on previously completed projects**. Moreover, the value of a consistent approach is also being demonstrated, since some projects are now becoming much more efficient and productive after several years of implementation.

The year 2013 was a year in which previously identified risks, particularly those related to the protection of contracts and bank guarantees, actually led to serious problems and delays in some projects. This negatively affected absorption capacity. It is the Commission's task not only to monitor and control the risk level, but also to ensure that allocated funds are fully absorbed to deal with the social and economic challenges that undoubtedly exist.

Delivery of infrastructure and major equipment continues to be difficult, but where these projects have succeeded, they have been **visible** and important successes. Even less visible projects previously delivered, such as renewed water networks, have led to significant improvements in daily life for Turkish Cypriots.

Next steps: the more stable perspective offered by the MFF 2014-20 should further support progress on some areas. The 2013 programme evaluation was generally positive in its conclusions, although lessons are continuously being learned. In some areas, fully successful intervention remains difficult and long-term sustainability does remain an issue, because **of low capacity of the beneficiaries and lack of local resources**, constraining Turkish Cypriot community engagement and affecting project sustainability.

The Commission cannot withdraw, however, from work in such areas since many are central planks of the *acquis* and vital to **the economic and social wellbeing of EU citizens**.